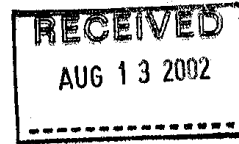




COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

August 12, 2002



MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX
ADMINISTRATION

FROM: *Acting for* Charles O. Rossotti *Bohlsen*
Commissioner of Internal Revenue

SUBJECT: Draft Audit Report – Most Security Controls Were
Adequate at the New Lockbox Facility in Dallas, but
Some Improvements Are Needed (Audit No. 200230016)

I reviewed your draft report and agree with the recommendations. Our specific comments to them are attached. Your report accurately reflects that the bank was substantially compliant with Lockbox Processing Guidelines (LPG) and recognizes that some areas need improvement. In 2002, we implemented additional security measures to mitigate risks in all our lockbox facilities.

In support of the LPG, our Agency-Wide Shared Services (AWSS) will work with Wage and Investment (W&I), Small Business/Self-Employed (SB/SE), and the Financial Management Service (FMS) by reviewing adherence to physical security guidelines when FMS performs announced and unannounced site visits. AWSS will also provide background investigation and fingerprint screening for employees and vendors working at lockbox facilities. I want to assure you we are making every effort to provide a secure environment for payment processing at lockboxes.

On Page 5, under the heading "Couriers with questionable FBI fingerprint results continued to receive access to the lockbox," I would like to clarify your observations that fingerprint checks for three couriers showed some criminal history and our National Background Investigations Center (NBIC) verified them for access. The NBIC based its decision to approve the three couriers for access on its review of the FBI fingerprint check results. The letters provided to the bank by the local security company were used as supporting documentation and prompted a further review of the FBI criminal history information. The NBIC applied standard adjudicative guidelines and granted access based on the definitive FBI information concerning dates, charges, and/or dispositions.

If you have any questions, please contact me or a member of your staff may contact Ronald S. Rhodes, Director, Customer Account Services, at (404) 338-8910.

Attachment

RECOMMENDATION 1

The Directors, Customer Account Services, Small Business/Self-Employed and Wage and Investment Divisions should work with the Deputy Chief, Agency-Wide Shared Services to ensure that lockbox management develop procedures and implements courier controls as required by LPG. Subsequent oversight reviews should ensure that procedures and controls have been implemented.

ASSESSMENT OF CAUSE

Dallas lockbox management did not follow the LPG for courier controls.

CORRECTIVE ACTION

W&I will work with SB/SE and FMS to notify the government relationship officer of site non-compliance. A letter will be issued to the site by FMS outlining the transgression. The site must provide FMS an action plan and an implementation date for correction.

IMPLEMENTATION DATE

September 2, 2002

RESPONSIBLE OFFICIALS

Director, Submission Processing
Chief, Individual Master File Branch

CORRECTIVE ACTION MONITORING PLAN

Security personnel from the IRS will support FMS to evaluate security compliance by performing announced and unannounced reviews.

RECOMMENDATION 2

The Directors, Customer Account Service, Small Business/Self-Employed and Wage and Investment Divisions should work with the Deputy Chief, Agency-Wide Shared Services to ensure that lockbox management requires air transport services to maintain adequate security at all times over shipments of IRS materials placed in their charge.

ASSESSMENT OF CAUSE

Dallas lockbox management did not ensure adherence to security over shipments of IRS materials.

CORRECTIVE ACTION

W&I will work with SB/SE to address this issue as part of our response to TIGTA Audit #200230035 which specifically addresses the adequacy of the LPG.

IMPLEMENTATION DATE

September 30, 2002

RESPONSIBLE OFFICIALS

Director, Submission Processing
Chief, Individual Master File Branch

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 3

The Directors, Customer Account Services, Small Business/Self-Employed and Wage and Investment Divisions should work with the Deputy Chief, Agency-Wide Shared Services to ensure that lockbox management adheres to requirements for packaging remittances for transport. The requirements should be met for remittances transported to the bank for deposit as well as for deposits shipped to the Submission Processing Center for processing.

ASSESSMENT OF CAUSE

Dallas lockbox management did not follow the LPG for packaging of remittances to the bank.

CORRECTIVE ACTION

W&I and SB/SE will work with FMS to notify the government relationship officer of site non-compliance. A letter will be issued to the site by FMS outlining the transgression. The site must provide FMS an action plan and an implementation date for correction.

IMPLEMENTATION DATE

September 2, 2002

RESPONSIBLE OFFICIALS

Director, Submission Processing
Chief, Individual Master File Branch

CORRECTIVE ACTION MONITORING PLAN

Security personnel from the IRS will support FMS to evaluate security compliance by performing announced and unannounced reviews.

RECOMMENDATION 4

The Directors, Customer Account Services, Small Business/Self-Employed and Wage and Investment Divisions should work with the Deputy Chief, Agency-Wide Shared Services to ensure that lockbox management performs and documents required reviews of candling practices.

ASSESSMENT OF CAUSE

Dallas lockbox management did not follow LPG documentation procedures for the candling process. However, Dallas lockbox management was not aware they were not meeting candling requirements. Neither internal nor external reviews addressed candling operations.

CORRECTIVE ACTION

W&I will work with SB/SE and FMS to notify the government relationship officer of site non-compliance. A letter will be issued to the site by FMS outlining the transgression. The site must provide FMS an action plan and an implementation date for correction.

IMPLEMENTATION DATE

September 2, 2002

RESPONSIBLE OFFICIALS

Director, Submission Processing
Chief, Individual Master File Branch

CORRECTIVE ACTION MONITORING PLAN

W&I and SB/SE will continue to evaluate compliance with the candling requirements during their scheduled peak reviews.

RECOMMENDATION 5

The Directors, Customer Account Services, Small Business/Self-Employed and Wage and Investment Divisions should work with the Deputy Chief, Agency-Wide Shared Services to ensure that lockbox management establishes and implements procedures to accumulate and maintain adequate information in each employee's personnel file to readily determine that the employee has met all necessary requirements for access to the lockbox. The review of these files should be included as part of oversight reviews.

ASSESSMENT OF CAUSE

Dallas lockbox management did not maintain the required personnel information as required in the LPG. Lockbox management did not establish procedures to accumulate and maintain required information in personnel files. Temporary employee personnel files were maintained without all required information and documents present.

CORRECTIVE ACTION

W&I will work with SB/SE and FMS to notify the government relationship officer of site non-compliance. A letter will be issued to the site by FMS outlining the transgression. The site must provide FMS an action plan and an implementation date for correction.

IMPLEMENTATION DATE

September 2, 2002

RESPONSIBLE OFFICIALS

Director, Submission Processing
Chief, Individual Master File Branch

CORRECTIVE ACTION MONITORING PLAN

W&I and SB/SE will continue to evaluate compliance with the LPG during their scheduled peak reviews.

RECOMMENDATION 6

The Directors, Customer Account Services, Small Business/Self-Employed and Wage and Investment Divisions should work with the Deputy Chief, Agency-Wide Shared Services to ensure that lockbox management receives confirmation that IRS waste material has been destroyed.

ASSESSMENT OF CAUSE

The Dallas lockbox site did not comply with the security guidelines for certification of destruction. The disposal company issued a certificate of destruction. However, the certificate went to the bank's headquarters office, and no confirmation was provided to management of the lockbox facility.

CORRECTIVE ACTION

W&I will work with SB/SE and FMS to notify the government relationship officer of site non-compliance. If no certification of destruction is provided to IRS, a letter will be issued to the site by FMS outlining the transgression. The site must provide FMS an action plan and an implementation date for correction.

IMPLEMENTATION DATE

September 2, 2002

RESPONSIBLE OFFICIALS

Director, Submission Processing
Chief, Individual Master File Branch

CORRECTIVE ACTION MONITORING PLAN

W&I and SB/SE will evaluate compliance with the LPG during their scheduled peak reviews.